

**SOUTH CAROLINA
SCHOOL FOR THE DEAF AND THE BLIND
SPARTANBURG, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1999

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
PAYROLL	6
MANAGEMENT CONTROL OVER FINANCIAL OPERATIONS	7
GENERAL LEDGER	8
RECONCILIATIONS	9
GAAP CLOSING PACKAGES	
Introduction	10
Compensated Absences	10
Fixed Assets	10
SECTION B - STATUS OF PRIOR FINDINGS	12
MANAGEMENT'S RESPONSE	13

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 30, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Commissioners
South Carolina School for the Deaf and the Blind
Spartanburg, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina School for the Deaf and the Blind, solely to assist you in evaluating the performance of the School for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the School, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Management Control over Financial Operations in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those on various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and recorded fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. Our finding as a result of these procedures is presented in General Ledger in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor
and
Members of the Board of Commissioners
South Carolina School for the Deaf and the Blind
June 30, 2000

5. We tested selected entries and monthly totals in the subsidiary records of the School to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in General Ledger in the Accountant's Comments section of this report.
6. We obtained all monthly reconciliations prepared by the School for the year ended June 30, 1999, and tested selected reconciliations of balances in the School's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the School's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the School's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the School's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our findings as a result of these procedures are presented in Payroll, Management Control over Financial Operations, Reconciliations, and GAAP Closing Packages in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the School resulting from our engagement for the fiscal year ended June 30, 1998, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payroll, Management Control over Financial Operations, General Ledger, and Reconciliations in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the School and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the School and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

The Honorable James H. Hodges, Governor
and
Members of the Board of Commissioners
South Carolina School for the Deaf and the Blind
June 30, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the School's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina School for the Deaf and the Blind and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

During our test of payroll transactions, we found that the School made numerous payroll calculation errors which resulted in incorrect payments to employees (eight employees were overpaid a total of \$287 and five employees were underpaid a total of \$162). The majority of the errors were related to the calculations for partial payroll periods and termination pay. (Similar findings were included in the six prior State Auditor's Reports.)

The accounting department follows no consistent method to calculate amounts for partial payroll periods and for termination pay. Some of the methods used are percentages of days worked in the pay period, hours worked in pay period, and hours not worked in the pay period. Also, other types of errors occur because the calculations of annual leave payments, semi-monthly pay amounts and dates of termination are not subject to review or independent verification. We found that an incorrect hourly rate was used to calculate the payment for accrued annual leave for one terminating employee.

For twelve month employees, the State Comptroller General's preferred method for calculating pay for partial payroll periods uses the ratio of actual days worked to total work days in the pay period. For less than twelve-month employees, the School's method as approved by the Comptroller General is to multiply the daily rate by the days worked in the period where the daily rate is calculated as the employee's annual salary equivalent divided by the number of work days for the year. Section 8-11-30 of the 1976 South Carolina Code of Laws states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due ... " Independent reviews of pay calculations and independent verifications of pay rates, work hours, termination dates, leave balance, etc. increase the probability that errors will be detected and corrected in a timely manner and that payroll checks will be processed for the correct amounts.

We continue to recommend that the School adhere to all State laws and regulations including those covering employee pay. The accounting department should develop and implement procedures to ensure that the partial pay calculation methods for twelve-month and less-than-twelve-month employees, as applicable, are consistently used to calculate each type of non-routine pay including partial periods and termination pay. In addition, procedures should be implemented to ensure that payroll calculations are independently checked for mathematical accuracy and information in those computations is independently verified with supporting documentation.

MANAGEMENT CONTROL OVER FINANCIAL OPERATIONS

During our testwork, we noted that the School did not have sufficient funds to pay for fiscal year (FY) 1999 operating expenditures. As a result, the School paid FY 1999 obligations totaling \$5,518 with FY 2000 appropriations and closed the fiscal year with an \$87,000 deficit in the earmarked fund. The School's management told us that the expenditures were made in anticipation of \$100,000 to be received from another State agency prior to fiscal year-end; however, those funds were not received until FY 2000. In our opinion, the operating deficit is a result of the School's failure to record budgetary information in its accounting system. Without this information, management is precluded from properly monitoring available resources. [See General Ledger comment.] We reported a similar finding in the prior State Auditor's report.

Proviso 72.3. of the 1999 Appropriation Act states, "Subject to the terms and conditions of this act, the sums of money set forth in this Part ... are appropriated ... to meet the ordinary expenses of the state government for Fiscal Year 1998-99, and for other purposes specifically designated."

We again recommend that the School properly record and maintain budgetary information in its accounting system and that this information be made available to personnel responsible for spending decisions.

GENERAL LEDGER

The School's general ledger did not properly account for all fiscal year 1999 transactions. We found that the School did not record its two interagency appropriation transfers and two of its twelve operating transfers. Accounting personnel told us that the School's original budget was recorded in the general ledger system, but that subsequent budget changes were not consistently recorded throughout the year. Also, we were unable to account for the numerical sequence of journal entries and found one appropriation transfer that was not assigned a sequence number. Further, we noted that 3 of the 15 journal entries tested were not signed indicating proper approval. Finally, we requested during the fiscal year 1997 engagement that the School place its composite bank account (the School refers to it as the non-appropriated account) within its general ledger system. As of the end of fieldwork for our fiscal year 1999 engagement, the School had not compiled with our recommendation.

Good business practices and strong internal controls require the proper maintenance of a general ledger system that provides complete, accurate, and timely information necessary for making financial decisions [e.g., available resource information needed for spending decisions (see Management Control over Financial Operations comment)]. Further, generally accepted accounting principles (GAAP) require transactions to be properly recorded for financial statement presentation.

We recommend that the School utilize the internal control benefits provided by a common accounting system for all transactions including its composite bank account transactions. All transactions, including budget adjustments should be signed (indicating proper approval), numbered sequentially, and posted to the system.

RECONCILIATIONS

During our current engagement, we randomly selected the month of November 1998 to review the School's reconciliation process. The School prepared this reconciliation untimely (in May 1999) and only reconciled expenditures. We also reviewed the year-end reconciliation and found that the School did not reconcile ending cash balances. Neither reconciliation was signed indicating independent review and approval. Similar findings were noted in the two prior State Auditor's reports.

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) explains that the only way certain errors in the agency's accounting and/or in the State's accounting system (STARS) can be detected is for agency accounting personnel to perform regular monthly reconciliations for revenues, expenditures, and ending cash balances. The guidance also states that such reconciliations must be performed on a timely basis (i.e. shortly after month-end) and be independently reviewed and approved in writing.

We again recommend that the accounting department develop and implement procedures to ensure that reconciliations are performed timely and in the manner as required.

GAAP CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information for the State's financial statements from agency-prepared closing packages. The requirements and instructions are included in the GAAP Closing Procedures Manual (GAAP Manual). Section 1.8 of the GAAP Manual provides, "Each agency's executive director and finance director are responsible for submitting ... closing packages forms ... that are: ●Accurate and completed in accordance with instructions." The School submitted inaccurate closing packages for compensated absences and fixed assets.

Compensated Absences

The School understated its leave liability \$78,550 by excluding annual leave in excess of 45 days (maximum carry forward to a new calendar year). The closing package should include annual leave in excess of the maximum carry forward because individuals can use the leave before the end of the calendar year. Section 3.17 of the GAAP Manual provides instructions for completing the closing package and including the requirement to use the actual employee leave balances when calculating the liability.

Fixed Assets

The equipment balance on the fixed assets closing package was \$36,643 less than the balance on the School's fixed asset equipment listing. Also the fixed assets additions reconciliation form reported \$31,786 that was not supported by workpapers or other documentation. Section 3.8 of the GAAP Manual provides instructions for completing the closing package including requirements to maintain proper documentation to support each amount reported.

We recommend that the School carefully review and follow GAAP Manual instructions for completing closing packages. The School should ensure that employees who complete and independently review the closing packages are properly trained and knowledgeable of GAAP and in the preparation of closing packages. Also, the School should ensure that proper supporting documentation is maintained for each amount reported on the closing packages.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the School for the fiscal year ended June 30, 1998, and dated May 11, 1999. We determined that the School has taken adequate corrective action on the Operating Lease Closing Package deficiency but not for the Payroll, Management Control over Financial Operations, General Ledger, and Reconciliations deficiencies which we have repeated in Section A of the Accountant's Comments section of this report.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA

SCHOOL FOR THE DEAF AND THE BLIND

Serving Individuals Who Are Deaf, Blind or Sensory Multidisabled

SHEILA S. BREITWEISER, Ed.D.
PRESIDENT

Monday, October 09, 2000

Thomas L. Wagner, Jr., CPA
State Auditor
1401 Main St., Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner,

We have reviewed the draft report resulting from your application of agreed upon procedures to the accounting records of the South Carolina School for the Deaf and the Blind for the Fiscal Year ended June 30, 1999. We concur with your findings and would offer that the findings do not reflect any intentional wrongdoing, mismanagement or malfeasance. Our response to your findings and recommendations follow:

Payroll

The accounting staff has been instructed to utilize the formula based on a percentage of the number of working days in a pay period for twelve month employees. This method is recommended by the Comptroller General's Office.

The situation regarding nine-month employees is more complex. We were to have developed a standard method for this computation. However this is one of those not accomplished. The net loss attributable to the lack of this procedure was not significant. A procedure will be in place soon.

Management Control Over Financial Operations

During Fiscal Year 1998 the School's IBM System 36 Mainframe Computer failed. This necessitated the purchase of a new computer and new accounting software. The conversion to a new system during a prior fiscal year, on an emergency basis, has had a long lasting impact on the workload of the accounting staff and our ability to get timely reports and exercise control at crucial periods.

We have now hired a new CFO (Chief Financial Officer) to provide timely guidance and a comprehensive review of our accounting system. This review will assure that the new system, if required, has the proper controls and that it is providing adequate financial management information for timely decisions.

With limited financial information, the school paid FY1999 obligations with FY2000 funds. In anticipation of revenue receipts, we continued to process payments at yearend. The anticipated funds were not received, resulting in an operating deficit in earmarked funds. To avoid this in the future, we have instituted a budget review process, combined with getting the budget entered into the management accounting system. A training effort has commenced to help the principal managers to operate within budget.

General Ledger

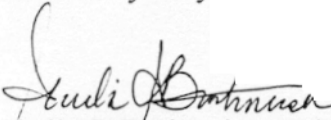
As stated in the Management Control Over Financial Operations section, the accounting system is currently under review. As part of this review, we will assure that all accounts are properly recorded in the General Ledger. We have added a budget analyst to the staff to ensure that the proper budget documentation and changes are recorded.

Reconciliation

It is recognized that reconciliation is an integral part of any accounting procedure. With a full staff, this task has been properly assigned and is currently up to date. In the future, reconciliations will be performed in a timely manner.

I would like to express my appreciation to you and your staff for the advice and assistance provided. I am sure we will be working closely with you in developing procedures and methods that will avoid these types of findings in the future.

Yours very truly


Sheila S. Breitweiser, Ed.D.
President